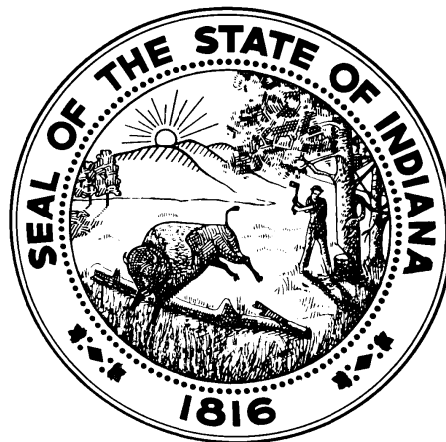


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT  
OF

PUBLIC EMPLOYEES' RETIREMENT FUND  
BOARD OF TRUSTEES  
STATE OF INDIANA

July 1, 2006 to June 30, 2007



**FILED**  
12/07/2007



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#### AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	David J. Adams Terren B. Magid	03-08-05 to 06-01-07 06-02-07 to 06-30-08
Chairman of the Board	Ken Cochran	06-17-05 to 04-05-08



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE PUBLIC EMPLOYEES' RETIREMENT FUND

We have audited the financial statements of the Public Employees' Retirement Fund Board of Trustees as of and for the year ended June 30, 2007, and have issued our opinion thereon dated September 29, 2007. The financial transactions of this office are reflected in the Public Employees' Retirement Fund of Indiana's Comprehensive Annual Financial Report.

In planning and performing our audit, we considered the internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain conditions in the design or operation of one or more of the internal control components that, in our judgment, need to be addressed by management. We also noted certain issues of noncompliance with statutes and board policies that, in our opinion, should be communicated to management.

As a result of performing our audit of the financial statements of the Public Employees' Retirement Fund (PERF), as of and for the year ended June 30, 2007, we have prepared the following Audit Results and Comments (ARC). In the report we issued for the year ended June 30, 2004, we identified 30 Audit Results and Comments. In the report we issued for the year ended June 30, 2005, we identified or continued a total of 15 findings from the 2004 report. In the report we issued for the year ended June 30, 2006, we continued 10 findings, discontinued 4 and combined 2 findings into 1 from the 2005 report. Additionally, there were no new Audit Results and Comments in the 2006 report. Since we issued the 2006 report it would appear PERF has developed and implemented, wholly or in part, plans to address each of the findings described in the 2006 report.

The Audit Results and Comments contained in this report continue 6 of the 10 findings and discontinue 4 from the 2006 report. We have not added new additional findings to this report. This represents an 80% reduction in findings, from 30 to 6, over the last 3 years.

Of the 6 findings that are continued in this report, 5 have root causes at least in part related to the SIRIS (now BMS) system itself, or to its implementation in 2002. PERF management presented a 3 to 5 year strategic plan to replace the SIRIS (now BMS) System to the PERF Board of Trustees at its June 21, 2007, board meeting. While PERF has implemented controls to mitigate these findings, PERF management has stated it may not be able to fully address each and every aspect of these five findings until the strategic plan is fully implemented.

The internal control conditions and the issues of noncompliance are disclosed in the following Audit Results and Comments. We communicated these and other internal control related issues to management in accordance with SAS 112, Communication of Internal Control Related Matters Noted in Our Audit, in a letter dated September 29, 2007.

STATE BOARD OF ACCOUNTS

September 29, 2007

PUBLIC EMPLOYEES' RETIREMENT FUND  
BOARD OF TRUSTEES  
AUDIT RESULTS AND COMMENTS  
June 30, 2007

EMPLOYEE MEMBER RESERVE RECONCILIATION

Accounts are maintained for each member employee on the computer system SIRIS, which is now identified as BMS. These computer accounts represent the subsidiary ledger records for the members' reserves for the PERF, 1977 Fund, Judges', Prosecuting Attorneys and CE Funds.

In our prior nine audit reports, the most recent being Report B28837, we have stated that the member and employer reserves had unidentified variances between the subsidiary computer system records and the general ledger balances. From July 2000 to March 2002, no reconciliations were performed. During this time a critical system conversion occurred. Prior to that time, and thereafter until June 2004, incomplete reconciliations were performed with resulting unidentified variances. Effective June 30, 2004, adjusting entries were recorded to the general ledger to recognize the unidentified variances, which were either significant or material to each of the funds administered.

PERF concentrated efforts on identifying and resolving the variance issues for the employer reserves. PERF effectively completed the implementation of its employer reserves processes during the fiscal year ended June 30, 2007.

During the fiscal year ended June 30, 2006, we had identified specific errors and concerns that remained as conditions due to the lack of a process to understand and ensure the accuracy of transactions affecting member subsidiary accounts and to affirm the total balances accounted for through data extracts used for accounting.

During the fiscal year ended June 30, 2007, the accounting department was not provided with complete reports of system transactions and balances in order to identify, classify and record necessary general ledger entries for the members' reserves in the course of business. The control structure for the member balances maintained in the computer system thus remained incomplete. Grand totals of member balances and system transactions were not provided to the accounting department in a timely manner. As such, control procedures of analysis, compilation, and reconciliation were not performed on a regular basis.

In fiscal 2007, PERF and its consultant CPA firm made improvements in defining and classifying system transactions and in developing an associated reconciliation process. The transaction data and balances were provided to the CPA firm in June 2007. This was utilized to reconcile the computer balance to the general ledger and to recommend necessary adjusting entries to record the accounting for the member reserves.

While the system transactions were largely defined and classified, the full associated control structure remains not fully documented. As stated in our prior two reports, each type of system transaction has not been associated to the reports, screens or databases. An increased understanding of the detail system transactions performed by operations staff is necessary to design the control structure for the associated communications, procedures and monitoring that may be necessary for accurate and complete accounting.

The reconciliation results for the fiscal year included that contributions were posted to members accounts that exceeded identified cash receipts by a total of \$580,303 for the PERF fund. The effect of the incomplete accounting for these member transactions is to require a funding transfer from another source in order to balance to the total recorded in the computer accounts. This funding is usually provided by reducing earnings available to allocate to employer accounts.

PUBLIC EMPLOYEES' RETIREMENT FUND  
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The reconciliation also identified balances within the computer for those who receive non-SIRIS benefit checks. Additionally, those whose account balances were transferred to the Teachers Retirement Fund have balances remaining in the computer.

We recommended that PERF identify the system transactions used for member transactions, obtain an understanding of the operational use, and design the control structure for the associated communication, procedures and monitoring that is necessary for an accurate and complete accounting. We further recommended that PERF research and identify the detail transactions comprising the variance between contributions posted to the computer and the cash receipts. The cause of the variances should be determined together with appropriate adjustments or further collections as necessary. PERF should resolve the balances remaining on the system for those who are no longer owed the funds.

Indiana Code 5-10.2-2-2 directs that the Board of Trustees of the Public Employees' Retirement Fund shall maintain separate accounts for the retirement allowance account and the annuity savings account.

Indiana Code 5-10.3-3-7.1 provides that:

"The board shall annually analyze for internal control purposes the funds:

- 1) income and expenditures;
- 2) actuarial condition;
- 3) reserve accounts;
- 4) investments; and
- 5) such other data as necessary to interpret the fund's condition and the board's administration of the fund."

#### MODIFICATIONS TO SIRIS TRANSACTIONS

Our prior two reports, the most recent being Report B28837, have stated that each transaction recorded to a member or an employer account on the SIRIS system has a transaction date and an effective date. We had reported findings that member transactions were recorded to prior periods. We noted that one of the effects of changing or incorrectly assigning transaction dates is to omit transaction amounts from current data collections that are used to provide accounting information.

In response PERF has identified that there also is a system assigned date field. Unlike the transaction date and effective date, this date field remains static. For fiscal 2007, the system date was utilized by PERF's contractor in compiling and reconciling the member account transactions from BMS. However we still found issues in being able to identify data changes and in PERF's monitoring of these changes.

Modifications to SIRIS (now BMS) transactions are made through data fixes and change requests. Data fixes are direct data modifications to a prior transaction. It is our understanding that data fixes do not have a new transaction or system date assigned. We observed data fixes which directly removed disbursements and contributions from member accounts. The data fix log provided by PERF listed approximately 378 data fixes completed in fiscal 2007. While a summary of the request reason was listed, we found that the transaction types and amounts changed were not listed in the data fix log. As a result, we cannot verify the accuracy or propriety of the data fixes recorded in the log.

PUBLIC EMPLOYEES' RETIREMENT FUND  
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The control structure for the member balances maintained in the computer system remains incomplete. Grand totals of member balances and system transactions are not provided to the accounting department on a regular basis. As such, control procedures of analysis, compilation, and reconciliation are not performed on a regular basis. In the absence of a complete accounting structure for monitoring the system transactions and balances, errors or irregularities in system modifications would not be detected in a timely manner.

We recommended that PERF establish a process to regularly monitor the system transactions and balances as maintained in BMS for the member reserve. In our opinion, data fix transactions should be restricted and rarely applied to financial transactions as direct modifications to data cannot be effectively reported and monitored. Financial data should be corrected through recording an adjustment, or reversal and reentry of the transaction. Control procedures should be established to identify and account for data changes and modifications. The data fix log should specify the transaction types and amounts changed and be reconciled to member balances and transaction amounts provided to the accounting department.

Indiana Code 5-10.3-3-7.1 states: "The board shall annually analyze for internal control purposes the fund's: (1) income and expenditures; (2) actuarial condition; (3) reserve accounts; (4) investments; and (5) such other data as necessary to interpret the fund's condition and the board's administration of the fund."

#### BENEFIT AND REFUND SYSTEM CONTROL WEAKNESSES

Our prior four reports, the most recent being Report B28837, have indicated specific control weaknesses in the design and operation of the computer system (SIRIS, now BMS) that is used to process benefits and refunds, and which also maintains the subsidiary accounts for the members reserve. During 2007, PERF began implementation of various processes and controls to address these control weaknesses. However, many of the processes were either incomplete or not initiated in time for testing during for the fiscal year. The status of these weaknesses at June 30, 2007, is given below.

##### Disbursement Controls

PERF had certain system controls disabled which would have insured that disbursements against a member's annuity account would not exceed the balance in the account. Additional monitoring was not implemented. Excess payments could be made via multiple payment requests or by system overrides. During our testing we found an immaterial exception that confirmed that excess payments could be made.

In fiscal 2007, PERF made plans to have a system report developed to be used to monitor distributions that are greater than a member's account balance. We were informed that when the report becomes available in fiscal 2008, an analysis will be completed on distributions processed in fiscal year 2007 that were overridden in some manner.

SIRIS maintains check records for disbursement transactions that have been entered but not yet authorized. We were told that information concerning such check records is now provided to the accounting department for review. However, in July 2007, check records remained in process status from December 2006, with check amounts up to \$100,735 in entered status.



PUBLIC EMPLOYEES' RETIREMENT FUND  
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We recommended that system controls be utilized to ensure that disbursements against a member's annuity account cannot exceed the balance in the account. Until such time as this can reasonably be assured, we recommend that PERF implement the plans to develop the system report to identify distributions that are greater than a member's account balance. The reports should then be issued and reviewed in a timely manner to ensure that the transactions are allowable and properly recorded. Information concerning check records in a status other than final should also be reviewed by the accounting department on a regular basis, with timely determinations and resolutions applied to the check records. We also recommended that PERF review the overpaid account, correct the balance, request repayment, and identify the cause for the processing error.

Processing of Final Service and Contributions

The system design did not ensure that benefits and refunds were processed, calculated, and paid accurately and timely with respect to the processing of the final contributions. As a result, PERF implemented a final benefit recalculation process which will be applied to all benefits and refunds processed since fiscal 2004. This process was begun on a small number of benefits late in fiscal 2007.

The SIRIS design omits a transaction to record final service credit. Service credit is regularly recorded in quarter year increments upon posting quarterly contributions. In order to post the exact service credit total for a retirement, PERF staff must now access and delete contribution entries and reenter the same contributions with the correct service credit total. An additional level of review is in place for this specific transaction to ensure the contributions are reentered correctly. However, we reported observing that contributions were reentered with a different effective date, including those of prior years. As such, the contributions recorded would no longer be properly associated to the period of receipt of the funds. In our opinion, reconciliations of the receipts could not be accurately or fully completed.

PERF studied the processing issues of reentry of contributions with different effective dates. They identified certain types of retirement transactions where this has been necessary for the system to properly recognize values. PERF has made plans to develop a change request to enable the system to properly process these transactions without reversing transactions and reentering wages and contributions. Until such time as this is finalized, PERF will change the processing of these affected retirements to use a unique transaction type in order to retain the identity of the original wage and contribution entry.

We recommended that PERF ensure that the process of finalizing benefits and refunds includes identifying any incomplete final entries. PERF should also continue the additional review in place to ensure that contributions were unchanged during benefit processing. We recommended that PERF implement the system corrections necessary to properly process the wages and contributions using the effective dates as originally posted in the system.

Inadequate Segregation of Duties

Segregation of duties is achieved by organizing job functions to prevent an individual from concealing errors or irregularities through the normal course of their authorized duties. Segregation of duties is enforced, in part, through appropriate assignment of user security rights which are based on each user's need to access, update, and process data. Within SIRIS, now known as BMS, sets of security rights are organized into various roles which can then be granted to user IDs, based upon each user's job functions.

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Clifton Gunderson LLP was contracted to perform a SIRIS (BMS) security analysis during 2004. During this analysis they identified incompatible roles and developed a method to identify user IDs that have been assigned conflicting role assignments, which are role combinations that would fail to enforce appropriate segregation of duties. As a result of Clifton Gunderson's security review, PERF modified the capabilities of existing roles and created additional roles to limit the access provided by any one role and modified the role assignments of BMS users. In the prior audit we found several user IDs that had more than 50 BMS roles, many of which are conflicting. For example, one individual had 93 roles which include at least 30 incompatible role combinations.

During the current audit period PERF has modified BMS to prevent a user from both initiating a transaction and auditing or approving the same transaction and has conducted an additional review of roles.

In our opinion, although these changes have improved segregation of duties within PERF, implementation of adequate segregation of duties is not complete. Below are concerns regarding segregation of duties:

The control to prevent a user from both initiating and approving the same transaction is limited to retirements and disbursements activities, but does not include activities such as contributions and cash processing.

Documentation of the role assignment review conducted during March 2007 indicated that only 21 of the 260 BMS user IDs were reviewed. In addition, several of the 21 users reviewed were still assigned incompatible roles after the review.

On July 10, 2007, PERF provided us with a status report. The status report stated they were working to complete a review of all users' roles and expected to have this review completed by July 31, 2007. We have not been provided with documentation concerning this review. In September 2007, we performed a review of role assignments which indicated many users were still assigned incompatible roles.

We recommended that PERF complete their review of system role assignments. Incompatible role assignments should be identified and removed to help ensure segregation of duties.

Indiana Code 5-10.3-3-7.1 states: "The board shall annually analyze for internal control purposes the fund's: (1) income and expenditures; (2) actuarial condition; (3) reserve accounts; (4) investments; and (5) such other data as necessary to interpret the fund's condition and the board's administration of the fund."

#### EMPLOYER RESERVE CHARGES

As stated in our prior four audit reports, the most recent being Report B28837, employer reserve charges are the actuarial calculated costs to the employer for the funding of the member's pension at retirement. The prior reports included findings that the incorrect actuary tables were used to calculate the pension funding and that the tables were incorrectly applied. In June 2006, PERF updated and loaded

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reserve factor tables in the SIRIS (now BMS) computer system. However, with the exception of the PERF fund, the factors were not properly applied through the computer system for most benefits. Specifically, the factors were incorrectly applied to regular retirement benefits of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) and to all benefits of the other pension funds. This was identified by PERF and resulted in PERF applying calculations manually in order to recognize an accurate charge.

In addition, PERF has identified computer processing concerns that necessitated that PERF perform other additional steps outside the system for the PERF and 1977 Funds. PERF performed an analysis of each retirement in order to recognize only those charges that were for final approved transactions and recalculated charges for retirees with multiple employers.

Through our testing we also found that prior actuary tables instead of current tables were incorrectly used in the computer system for the calculation of PERF second retirements.

PERF has informed us of plans to improve the process used to identify the final retirement costs and compile charges to employer accounts.

We recommended that the actuary tables adopted by the Board of Trustees in accordance with Indiana Code 5-10.3-3-7(7) be accurately applied.

#### UNCORRECTED PRIOR ERRORS

As stated in our prior four audit reports, the most recent being Report B28837, we found various anomalies in the calculation of members' benefits and refunds. As detailed in the prior reports, these anomalies resulted in both underpayments and overpayments to members. The causes varied, but were mainly due to SIRIS (now BMS) programming anomalies, input errors, and incorrect data used in benefit calculations.

PERF has implemented a process which includes various steps to improve the accuracy of members' benefits and refunds as well as to correct errors. The following steps were taken:

First, as noted in our prior audit reports, PERF hired a CPA firm (Clifton Gunderson LLP) to recalculate all benefits and refunds that were processed from the inception of the SIRIS system in April 2002 through June 30, 2004. During fiscal 2007, Clifton Gunderson performed additional contract work to properly effect account adjustments to monthly payments and cumulative account differences through December 31, 2006.

Second, during fiscal 2006 and 2007, in an effort to ensure benefits are paid accurately and effective controls and processes are in place, PERF retained Clifton Gunderson to help implement and maintain its quality assurance function over the verification of member information and calculations in the payment of benefits.

Third, in fiscal year 2007, a process known as "Final Benefit Audit and Analysis (FBAA)" was implemented. This process is a control to ensure final contributions and service are included in a member benefit calculation. The process includes recalculating benefits to include analyzing and validating final creditable service as attested to by the employer, as well as employer contributions and employee Annuity Savings Account contributions and interest

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through the date of retirement. The process is also applied to refund transactions in order to disburse the final contributions. PERF management has set a goal of finalizing benefits for those in estimated status at six to twelve months as final data is obtained.

Presently, benefits and refunds processed since July 2004 are held in estimated status. Clifton Gunderson was hired to perform the FBAA process on member transactions originally processed from July 1, 2004 through December 31, 2006. In May 2007, PERF began to finalize the transactions originally processed from January 1, 2007.

We tested the recalculated benefits and refunds that were originally processed from April 2002 through June 30, 2004. We found that the method PERF used to process the final refunds in some cases resulted in balances remaining in member accounts, with incorrect statements sent to members. In December 2006, PERF processed the refund payments owed using a file upload of the calculated amount owed. Entries were not made in the computer system to zero out the member accounts, and the member accounts were not frozen. One of the refunds in our sample test was overpaid \$353 when the balance remaining in the system was refunded in May 2007.

A total balance of approximately \$1.6 million was identified as held in the computer accounts for those in the benefit and refund corrections project. PERF informed us of action taken to ensure that no further statements be generated until such time as the balances are removed from the system.

We recommended that the quality assurance function for processing benefits be maintained. We also recommended that the benefits and refunds be finalized in a timely manner as established by PERF policy. We further recommended that the balances remaining in the computer for those in the benefit and refund corrections project be removed, and that PERF identify any other incorrect refunds of these balances and seek collection of the incorrect refunds issued.

Indiana Code 5-10.3-3-7 states, in part: "the Board of Trustees shall . . . 5) Provide for the installation in the general office of a complete system of books, accounts including reserve accounts, and records in order to give effect to all the requirements of this article and to assure the proper operation of the fund."

Indiana Code 5-10.2-2-1.5 states, in part: "(1) Each board shall distribute the corpus and income of the fund to members and their beneficiaries in accordance with the retirement fund law. (2) No part of the corpus or income of a fund may be used for or diverted to any purpose other than the exclusive benefit of the members and their beneficiaries."

#### LEGISLATORS' DEFINED CONTRIBUTION FUND NOT RECONCILED

As stated in our prior three audit reports, the most recent being Report B28837, beginning January 1, 2004, the PERF Board implemented a pilot program for the Legislators' Defined Contribution Fund in accordance with public law. The PERF Board contracted with a service provider in order to implement daily investment selections. This contractor maintains detailed accounts for each member and performs the necessary bank transactions associated with member options. The PERF Board had not obtained or required a reconciliation of the service provider's records to the associated bank records as of June 30, 2004 and June 30, 2005. As of June 2006, PERF required the service provider and custodian bank to identify prior years' errors and to correct their records. PERF developed written procedures in June 2006, which were modified in August 2006, in order to further ensure accuracy of the fund accounting.

PUBLIC EMPLOYEES' RETIREMENT FUND  
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During our audit of fiscal year 2007, we found that expenses and income recorded in the general ledger were not reconciled to service provider records. Also, the investment income recorded in the general ledger was a calculated amount necessary to agree to the investment balance. An error in the amounts recognized between transaction types for refunds and investment income was not detected. An adjusting entry was made when we brought this to management's attention.

PERF procedures also do not include review and comparison of the service provider bank report for refunds and loans authorized by PERF staff.

We identified a balance of approximately \$19,000 held outside member accounts in a forfeiture asset holding account of the consolidated investment fund option. Great West records state that this was recorded in January and June 2007 and consider it available for plan expenses. At the time of our audit, PERF accounting did not have records as to the source of these funds or the order to Great West to withhold them from members' accounts.

We recommended PERF maintain an effective accounting and reconciliation process and adequate related supporting documentation for the Legislators' Defined Contribution Fund. Detail procedures should be applied to each transaction type and the bank report should be reviewed and compared to the PERF authorized transactions. The source of the funds held outside members accounts should be identified, with an appropriate application for use of the funds determined.

Public Law 126 - 2003 section 1 (d) (1) states that: "Notwithstanding IC 2-3.5-5-3(b)(2), the PERF board shall implement a member's selection under IC 2-3.5-5-3 not later than the next business day following receipt of the member's selection by the PERF board. This date is the effective date of the member's selection." Section 1(d)(2) states that: "Notwithstanding IC 2-3.5-5-3(b)(7), all contributions to a members' account in the fund must be allocated under IC 2-3.5-5-3 not later than the last day of the quarter in which the contributions are received and reconciled in accordance with the member's most recent effective direction."

PUBLIC EMPLOYEES' RETIREMENT FUND  
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EXIT CONFERENCE

The contents of this report were discussed on October 25, 2007, with Terren B. Magid, Executive Director; Patricia Bush, Chief Financial Officer; and Ken Cochran, Chairman of the Board. The official response has been made a part of this report and may be found on pages 13 and 14.

The contents of this report were discussed on November 14, 2007, with David J. Adams, former Executive Director. The official response has been made a part of this report and may be found on page 15.

November 13, 2007

OFFICIAL RESPONSE

State Board of Accounts  
Indiana State Board of Accounts  
302 West Washington Street  
Room E418  
Indianapolis, IN 46204

**Public Employees'  
Retirement Fund**

Dear Ladies and Gentlemen:

**1977 Police Officers'  
and Firefighters' Pension  
and Disability Fund**

**Prosecuting Attorneys'  
Retirement Fund**

**Legislators' Retirement  
System**

**Excise Police, Gaming  
Agents and Conservation  
Enforcement Officers'  
Retirement Plan**

**1977 and 1985 Judges'  
Retirement Fund**

This letter serves as our response to the State Board of Accounts Audit Results and Comments for the Public Employees' Retirement Fund (PERF) dated June 30, 2007. The results of this audit were presented to PERF on October 25, 2007. The PERF management team appreciates the comments and insights provided by the State Board of Accounts.

PERF management and staff are very proud once again to receive an unqualified opinion for fiscal year 2007. We believe this second consecutive unqualified opinion, after receiving its first unqualified opinion in four years last year, represents PERF's commitment to accurately and completely represent the financial condition of this organization. This result is the product of PERF's continued focus on effective processes and controls and strong desire to provide its members and employers with the integrity and transparency they deserve in the management of their pension systems. Members and employers should take great confidence in PERF's ability to prudently and properly manage the funds.

We are encouraged further by the continued reduction in audit findings. Less than three years ago, the State Board of Accounts delivered to PERF its Audit Results and Comments dated June 30, 2004, which contained 30 findings. This most recent report, which contains six findings, represents an 80% reduction since that time. Management has already initiated steps to resolve the remaining findings, but recognizes that such resolutions will need to be audited further during the next audit period. Moreover, management recognizes that some of the remaining findings ultimately may not be resolved until implementation of PERF's information technology strategy. PERF is committed to providing all necessary mitigating controls to ensure transparency and accountability to its members and employers.

PERF leadership is gratified that the audit process once again was completed according to the timeframe agreed to by PERF and the SBOA. By completing the audit in October, PERF has the ability to take the necessary actions to address items raised by the State

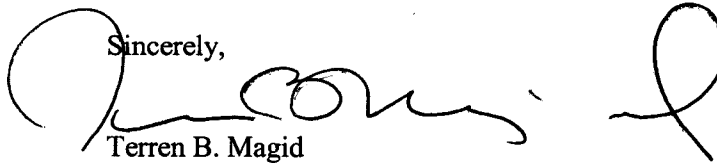
Board of Accounts in a time frame sufficient to be reviewed in the next audit. PERF leadership believes that this joint effort in the audit process has contributed significantly to the improved quality of our financial statements and the significant reduction in findings.

In addition to the second consecutive clean financial opinion, PERF continues to be a strong retirement system and leadership continues to implement changes to realize our mission of *Excellence in Customer Service*. During fiscal 2007, PERF increased its assets approximately \$2.7B and grew to the 85<sup>th</sup> largest retirement system in the United States. Members who applied for retirement benefits according to PERF processes routinely received their first benefit check without payment interruption and, in several months during the year, 100% of applicants received their retirement benefits without payment interruption for the first time in recent PERF history. PERF distributions were made with a similar degree of efficiency. With the addition of new functionality, PERF Online has seen nearly a three-fold increase in the number of web transactions since last year offering members and employers a more efficient way in which to transact business.

In recognition of our customer service focus, PERF personnel were once again recognized at the Governor's 2007 public service award out of more than 30,000 state employees. PERF's achievements also have received national recognition. In 2007, PERF received the Government Finance Officers' Association certificate for the quality of its Comprehensive Annual Financial Report for 2006. In addition, PERF recently received the Public Pension Coordinating Council Public Pension Standards 2007 Award, an honor offered by the three largest public pension plan administrator industry groups, in recognition of meeting professional standards for plan design and administration. These are but a brief sample of the highlights that occurred at PERF during the last fiscal year.

I want to thank the State Board of Accounts again for its insight and assistance. As always, PERF looks forward to working with the State Board of Accounts to improve its operations on behalf of its members and employers.

Sincerely,



Terren B. Magid  
Executive Director

**Public Employees'  
Retirement Fund**

**1977 Police Officers'  
and Firefighters' Pension  
and Disability Fund**

**Prosecuting Attorneys'  
Retirement Fund**

**Legislators' Retirement  
System**

**Excise Police, Gaming  
Agents and Conservation  
Enforcement Officers'  
Retirement Plan**

**1977 and 1985 Judges'  
Retirement Fund**



November 21, 2007

Indiana State Board of Accounts  
302 West Washington Street  
Room E418  
Indianapolis, Indiana 46204

Dear Ladies and Gentleman:

I have had the opportunity to review the audit findings for the period of July 1, 2006 to June 30, 2007. Given that I was Executive Director of the fund, from July 1, 2006 to June 1, 2007, I find it only appropriate that I should respond to this report.

I am very pleased that the fund, due to the tremendous efforts of management and staff, has again received an unqualified opinion for fiscal year 2007. I am further pleased that the number of findings were reduced to six and that plans are in place to resolve each one.

Under Governor Daniels' administration, management has restored creditability to a fund that only three years ago had 30 findings, was in disarray, and had received a qualified financial opinion.

I am very proud to have led this organization through the transition and to have one of my key executives, Terry Magid, assume responsibility after my departure. It is through his stewardship that the fund will continue to improve.

It has been an honor to serve the citizens of Indiana, the Public Employees' Retirement Fund and Governor Daniels.

Sincerely,

A handwritten signature in black ink, appearing to read 'David J. Adams', with a long horizontal flourish extending to the right.

David J. Adams  
Executive Director  
2005-2007